



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, April 9, 2014
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:04 a.m. Wednesday, April 9, 2014, in the 2nd Floor Conference Room, 50 Service Avenue, Warwick, RI.

Treasurer Raimondo welcomed Mr. Mark A. Carruolo, the new gubernatorial appointee to the Retirement Board and administered the oath of office to him. The Treasurer acknowledged former Board member, M. Carl Heintzelman, for his years of service to the Board and wished him well.

I. Roll Call of Members

The following members were present at roll call: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Daniel L. Beardsley; Mark A. Carruolo; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director and Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Treasurer Raimondo called the meeting to order.

II. Approval of Minutes

On a motion by John P. Maguire and seconded by Jean Rondeau, it was unanimously

VOTED: To approve the draft minutes of the March 12, 2014 meeting of the Retirement Board of the Employees' Retirement System of Rhode Island.

Mr. Prata inquired about the Central Coventry Fire District as he noted there were members who applied for disability and some recent retirees thus causing concern about funding of the unit. Attorney Robinson said the Court has set a liquidation date of May 16, 2014 and has ordered the special master, now the liquidating receiver, to develop a plan of liquidation. Attorney Robinson noted that MERS will be filing an amended proof of claim, based on information provided by the System actuary Gabriel, Roeder, Smith and Company (GRS), which will include one, two and three year estimates for paying off the outstanding debts, sufficient to cover the district's pension liabilities.

Mr. Beardsley apprised Board members that the debt obligation of the fire district was acknowledged in testimony yesterday in both the House and Senate Finance Committees in regards to a piece of legislation that would enable the State to intervene as an overseer and/or a budget commission. He said the bill did pass out of the Senate Finance Committee and it was anticipated that the House version would follow potentially resulting in legislation that would allow the State to intervene. Mr. Beardsley said the question is whether the commissions' involvement would negate the necessity of the liquidation.

III. Chairperson's Report

Treasurer Raimondo took the opportunity to thank the Board for their participation and time for the very informative discussions at the Board's annual *Fiduciary Training and Continuing Education Session* held at the Alton Jones Campus at URI on Friday March 28th. Mr. Beardsley expressed his commendations to Director Karpinski, Attorney Robinson, Attorney Mambro-Martin, and Joseph Newton of GRS for their exceptional performance of each presentation.

Treasurer Raimondo apprised the Board that assets under management were over the \$8 billion mark reaching \$8.1 billion as of March 31, 2014. She said the 1-year performance is 12.3% and the 3-year performance is 8.5%. The Treasurer noted that the standard deviation, a measure of risk, is 8.5%, which is substantially lower than a few years ago and reassurances there are good returns with less risk.

IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the Disability Subcommittee Report and the Pension Application Report. Also provided was an Independent Auditor's Report on Internal Control, a presentation prepared for the Audit Subcommittee from the Auditor General on the Fiscal 2013 audit results and the *Other Required Communications to those Charged with Governance* report prepared by the Auditor General. Director Karpinski apprised the Board that the new Chair of the Audit Subcommittee, Jean Rondeau, will provide an update to the Board during the Committee reports.

The Director then apprised the Board that Attorney Andrew Marcaccio, Legal Counsel – Regulatory Affairs, will provide the Board with a presentation on disability compliance and Director Karpinski said he would discuss a Board Governance review. The Director noted that the ERSRI website has been updated with information on which communities are receiving a COLA and FAQ's.

Director Karpinski updated the Board on the "*Report of Contributions*" delinquency report in the Board book. He noted that both the Foster Police Department and the Town of Foster have become current since the printing of the report. The exceptions are Central Coventry Fire District, Bristol, and Scituate; and if payment contributions are not received today, the normal collection of funds procedure will be initiated.

- **Disability Update**

Attorney Andrew Marcaccio provided the Board with an overview of the disability compliance and process of record keeping. He reviewed the two important provisions, namely, the Earnings Requirement, where the Board has the authority to adjust a member's pension if it is in excess of earned income as provided by law and the independent medical examination (IME) authority, which is an annual medical examination the Board has authority to require a member undergo annually. Mr. Marcaccio reminded the Board that Sullivan & Company was previously hired to provide recommendations to improve the disability compliance process.

Mr. Marcaccio then discussed upgrades to policy and resources and reaffirmed the established disability pension abuse hotline and the independent private investigator progress in minimizing fraud. Mr. Marcaccio apprised the Board of drafted detailed written policies to ensure fairness and consistency as well as creating an MS Access®

database to efficiently track responses, analyze data and provide an extra level of recordkeeping.

Attorney Marcaccio then discussed the reporting for members who are under minimum age of service retirement and receiving a disability retirement as of December 31, 2012. He noted there were 534 members, which is 38% of all members receiving a disability. Mr. Marcaccio noted that there was a 98% response rate of returned reports from members. Attorney Marcaccio said that 18% of the members were employed during the 2012 tax year.

Lastly, Mr. Marcaccio noted that for the 2013 medical year, there are 108 members who may be potential candidates for IME's and then delineated the reasons that would apply for such an assignment.

Mr. Beardsley and Mr. Prata inquired about the investigator ISG speaking to the Board. Attorney Marcaccio said ISG would be available to explain to the Board their process and approach to managing claims and conducting investigations.

- **Discussion of Board Governance Review**

Director Karpinski began his presentation noting that the purpose of the Board, on behalf of the members and beneficiaries, is to see that ERSRI achieves appropriate results for appropriate persons at an appropriate cost and avoids unacceptable actions and situations. He said governance models dictate that Boards should govern with an emphasis on outward vision rather than an internal preoccupation, encouragement of diversity in viewpoints, strategic leadership more than administrative detail, clear distinction of Board and Chief Executive roles, collective rather than individual decisions, concentration on the future rather than past or present and govern proactively rather than reactively.

Accordingly, he said such governance models suggest that the Board's official connection to the operational organization, its achievements, and conduct is usually through a Chief Executive Officer, titled Executive Director. Director Karpinski said the Board should instruct the Executive Director through written policies, which prescribe the organizational *Ends* to be achieved, and describe organizational situations and actions to be avoided, allowing the Executive Director to use reasonable interpretation of these policies. He said this cycle of the Board governance through the Executive Director would promote sound administration and operation of the Fund.

Director Karpinski said systematic and rigorous monitoring of Executive Director Job performance should be solely against the expected Executive Director Job outputs, organizational accomplishment of Board policies on *Ends*, and organizational operation within the boundaries established in Board policies on executive limitations. He said the Board should acquire monitoring data by methods such as an internal report, in which the Executive Director discloses compliance information to the Board, an external report, in which an external disinterested third party selected by the Board assesses compliance with Board policies and/or a report from the Chief Auditor.

Director Karpinski recommended the Board consider the use of a Board Governance facilitator to further develop its governance model and how to evaluate the Directors performance after a governance policy has been established. He apprised the Board that he would develop an RFP to procure such services and bring candidates to the Board for their review and consideration.

- **Computer System Update.**

Director Karpinski updated the Board on the status of the ongoing computer system implementation. He said that after consideration of three factors, it was decided to advance the pension payroll go-live date by six months from July 2014 to January 2015. The Director then cited the three reasons for the adjustment namely; consideration of the ongoing mediation and potential change requests that could be generated by any agreements; a review of technical considerations determined that it would be more practical and efficient to produce 1099R's from the current ANCHOR system rather than two separate systems and data validation and testing for the General Ledger accounting and payroll system are a top priority and ERSRI wanted to dedicate as much time as necessary to ensure their accuracy.

Director Karpinski said the Microsoft Dynamics AX accounting system is still scheduled to be implemented for July 2014. The Director stressed that the six-month advance does not change the overall system implementation schedule of November 2015 but rather moves parts in between.

Lastly, Director Karpinski apprised the Board that he is meeting Friday with the States Insurance consultants to review preliminary bids for cyber insurance. He expects to bring quotes to the procurement subcommittee soon.

V. Administrative Decisions

None this month

VI. Approval of the March Pensions as Presented by ERSRI

On a motion by John P. Maguire and seconded by Claire M. Newell, it was unanimously

VOTED: To approve the March pensions as presented.

VII. Legal Counsel Report

Attorney Robinson noted that there has been a new lawsuit filed by a group of retirees challenging the 2011 pension reform. He said the Board's special litigation counsel will review the matter and the Board would be updated accordingly.

VIII. Committee Reports

Disability Subcommittee:

The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on Friday, April 4, 2014:

Name	Membership Group	Type	Action
Anne Patterson	Teacher	Accidental	Appeal Withdrawn (No Vote Taken)
Linda Rose	State	Accidental	Deny
Benita Fernandez	State	Accidental	Postpone
Mary Ellen Malone	Teacher	Accidental	Postpone
Susan Petrarca	Teacher	Ordinary	Approve
Susan Hamilton	State	Ordinary	Postpone
Michael Martin	State	Accidental	Deny
Charles Carlucci	State	Accidental	Postpone
David Cuccorelli	Municipal	Accidental	Postpone
Dorothy Baker	State	Accidental	Approved @ 50%
Linda Castigliego	Municipal	Ordinary	Member Service Eligible (No Action Taken)
Kelly Butterworth	State	Ordinary	Approve
Wayne Pierce	State	Ordinary	Approve

Chairman Finelli apprised the Board that Item No. 1 does not require any action.

On a motion by William B. Finelli and seconded by Louis M. Prata, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, April 4, 2014 on items 4 and 5.

John P. Maguire recused himself from the vote on numbers 4 and 5.

On a motion by William B. Finelli and seconded by Louis M. Prata, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, April 4, 2014 on items 2 and 8.

John J. Meehan recused himself from the vote on numbers 2 and 8.

On a motion by William B. Finelli and seconded by John P. Maguire, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, April 4, 2014 on items 6, 7, 10, and 12.

Claire M. Newell recused herself from the vote on numbers 6, 7, 10, and 12.

On a motion by William B. Finelli and seconded by John P. Maguire, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, April 4, 2014 on items 3, 9, 11, and 13.

Audit Subcommittee: Treasurer Raimondo apprised the Board that Mr. Carruolo has joined the Audit Subcommittee replacing Mr. Heintzelman and that he had already attended the recent committee meeting of April 7, 2014.

Mr. Jean Rondeau, the chair of the subcommittee, said the Audit Subcommittee met on April 7, 2014 to review the June 30, 2013 audit findings and discuss the System's actions for corrections. He thanked the members of the committee, namely, Mark A. Carruolo, Mark A. Dingley, and Louis M. Prata. Also present were the Auditor General Dennis E. Hoyle, CPA and Senior Audit Manager William Gallogly, CPA.

Chairman Rondeau noted that the committee was provided a presentation of the *Schedule of Findings and Responses* by the Auditor General based on his report dated April 3, 2014. A copy of the report was provided to the Board in their packet of information. Chairman Rondeau told the Board that the Auditor General reported one finding (investment accounting), no material weaknesses in internal control over financial reporting, and no material noncompliance with laws, regulations, and contracts. He said the Auditor General also reported 11 management comments (which are less significant findings) and management's response and planned corrective action, to the committee.

The Chairman said the committee discussed the comments with Mr. Hoyle and the ERSRI staff and noted Mr. Hoyle said there were no disagreements with management or difficulties encountered in performing the audit. Additionally, the Auditor General noted that four communicated recommendations were implemented from the FY 2012 audit.

Chairman Rondeau told the Board that Mr. Hoyle discussed the 2014 audit scope, responsibilities, and approach with the committee and noted five new issues impacting the FY 2014 audit namely;

- Implementation of GASB 67
- Planning for the implementation of GASB 68 (applicable for FY 2015) and significant efforts that will require extensive planning and coordination between ERSRI, GRS and the OAG
- Accounting for the new system development costs
- Funding for the new judicial retirement trust actuarial valuation issues depending on whether the plan is advance funded or pay-as-you-go
- Central Coventry Fire District and who funds obligations in an agent plan when the entity ceases to exist

Chairman Rondeau told the Board that Mr. Hoyle apprised the committee on areas of significant audit emphasis namely:

- Fair value of investments and related disclosures
- Investment expenses
- Controls at TIAA-CREF for the defined contribution plan
- Contributions revenue and contributions receivable
- Compliance with the determination of pension benefit amounts as outlined in the law.
- Allocations to the plans within the System – investments, investment income, administrative costs
- Disclosure of actuarial information in required supplementary information and note disclosures.
- Controls over access to the System's computer systems to ensure the integrity of data and reliability of the systems.

Chairman Rondeau said the committee accepted the report as presented and thanked Mr. Hoyle and his staff for their efforts. Then on a motion by Daniel L. Beardsley and seconded by Claire M. Newell, it was unanimously

VOTED: To accept the report of the Audit Subcommittee regarding the June 30, 2013 audit findings and the System's action plan for correction.

IX. Adjournment

There being no other business to come before the Board, on a motion by Louis M. Prata and seconded by John P. Maguire, the meeting adjourned at 9:45 a.m.

Respectfully submitted,

Frank J. Karpinski
Executive Director